Budget Balancing Strategies and Approaches

In early 2007, the County's recent fiscal challenges were first identified. At that time, the budget was balanced and economic conditions were generally good; however, the great recession loomed on the horizon. In order to proactively deal with the difficulties that laid ahead, a seven year "pain management plan" was crafted and utilized to guide the Board and staff in addressing significant budget gaps. FY 2008-09 was the first year of the plan, and FY 2014-15 represented the final year.

Moving into FY 2015-16, the County is in a strong financial position as a result of its adherence to the plan to close the structural budget gap. Despite the fact that the plan is no longer being actively utilized, the underlying budget balancing strategies and approaches are still relevant and represent the Board's preferences for achieving a balanced budget. In the event of a future economic downturn, it is likely that these same strategies and approaches would be utilized to close any future budget gaps.

The Last Seven Years: A Look Back

The foundations of the seven year plan were the County's adopted Budget Goals and Policies, Board priorities and direction, and the detailed budget instructions. The Goals and Policies were reviewed annually by the Board and will continue to be subject to annual review and approval.

The approach was for the Board to provide its priorities and other direction to staff early in the annual budget process. County departments utilized this direction in crafting each of their individual budget proposals and the County Administrative Office utilized these priorities and directions when crafting an overall Proposed Budget. This approach will continue, and in accordance with the State Budget Act (Government Code 29000-29144), the Board will continue to review and set the budget for the fiscal year during budget hearings in June of each year. Along the way, the Board has been, and will continue to be provided regular updates regarding the status of the budget.

One of the overarching objectives of the budget strategies has been to strike a balance between maintaining fiscal health and continuing to provide programs and services to the County's many and varied customers. The recent fiscal challenges have made striking this balance more difficult than ever. In order to maintain the County's fiscal health, this balance will continue to be important, even in an improving economy. Over the years, the County has been prescient in creating and maintaining adequate reserves in order to help address a potential fiscal downturn. The approach has been to utilize some of these reserves and other short-term budget balancing solutions in order to soften the impact of reductions to programs and services. However, it is imperative that these short term solutions be used judiciously in order to maintain the County's fiscal health. Should short-term solutions be over-utilized, the magnitude of reductions required later would be amplified.

With respect to the use of short-term budgeting solutions, the intent was to pare down the amount used as the County worked its way through the seven year pain management plan. To illustrate, during the creation of the pain management plan, the planned use of short-term solutions was as follows:

- 2008-09 50% of gap closed with short-term options
- 2009-10 30% of gap closed with short-term options
- 2010-11 25% of gap closed with short-term options
- 2011-12 20% of gap closed with short-term options
- 2012-13 15% of gap closed with short-term options
- 2013-14 10% of gap closed with short-term options
- 2014-15 Structural gap closed- no use of short-term options

The plan served the County well and the underlying strategies and approaches should continue to do so into the future. While the County's recent fiscal challenges were unprecedented in recent times, they paled in comparison to that of many local governments around the state and the country. The County's fiscal position is enviable to many and is primarily attributable to fairly stable property tax revenues (as compared to other areas) and to sound fiscal management.

Following is an outline of the County's preferred budget balancing strategies and approaches:

Approaches that address the long-term budget gap:

1. Priority Driven- One of the starting points of the budget process is to identify Board priorities so staff can craft budget proposals that align with these priorities. Currently, the Board's priorities are as follows (in order):
    a. Meet legal mandates
    b. Meet debt service requirements
    c. Public Safety- defined as:
        i. Sheriff-Coroner (fund center 136)
        ii. District Attorney (fund center 13201)
        iii. Probation (fund center 139)
        iv. County Fire (fund center 140)

2. All Departments Participate- While departments will receive different levels of funding due to priorities, departmental revenue sources, and program designs (amongst many other variables); all departments will participate in the closing of the budget gap. More specifically, no department is exempt from budget reductions.

3. Proportional Reductions- Instead of cutting all operations by the same amount across the board, proportional growth and reductions will be taken into consideration. More specifically, staff could pursue reductions by department

in relation to the amount of growth during the “good times”. The rationale is that when times are good, some departments experience significant growth in expenditures and staffing due to increases in demand and revenues. In times when demand and corresponding revenues have slowed, expenditures should be scaled back accordingly. Conversely, some departments grow very little over time, and as a result they may not be scaled back to the same extent as other departments.

4. <u>Detailed Budget Reduction Lists (i.e. cut lists)-</u> All departments are to incorporate a prioritized list of resource/expenditure reductions into their annual budget submittals. Reductions with the least impact upon programs and services should be the first in line for reduction per Board approved Budget Policy #19. The concept is that departments are the experts in their respective fields and are in the best position to recommend budget reductions in line with the Budget Goals and Policies, Board priorities and direction, and detailed budget instructions. The targets for the amount of reductions to include in the budget submittals are provided as part of the detailed budget instructions (usually early December).

5. <u>Mid-Year Budget Reductions-</u> Mid-year reductions may be necessary in any given fiscal year depending upon the fiscal climate or action at other levels of government at any particular point in time. The intent of the mid-year reductions is to help keep the current year budget in balance and to create additional Fund Balance Available (FBA) at year-end for use as a funding source in the subsequent budget year.

6. <u>Reduce “Over Match”-</u> Many County administered programs are mandated by the State. Funding provided by the State for these types of programs typically has not kept pace with the corresponding expenditures. During the “good years”, the County may utilize some of its local, discretionary revenue to help offset the difference in order to keep many of these important programs intact. However, the County’s ability to continue to provide this “over match” is limited during times of economic difficulty, and is scaled back. Some examples of “over match” include the Roads Pavement Management program, Health Agency programs, and Victim Witness services.

7. <u>Engage Employees and Employee Associations-</u> Approximately 45% of the total County budget (and almost 60% of the General Fund budget) are labor costs and not surprisingly, salary and benefit costs have the most significant influence upon expenditures. County staff and negotiators continue to work with employees and employee associations in order to create opportunities to curtail labor costs. Specifically, the goal is to negotiate labor agreements that are consistent with the Board’s direction that: 1. The cost of pension rate increases be shared 50/50 by the County and employees, 2. A tiered pension plan be implemented for all new hires, and 3. Prevailing wage adjustments should be negotiated, consistent with the County’s Prevailing Wage Ordinance.

Short-term solutions that do NOT address the long term structural budget gap:

1. Hiring "Chill"- The purpose of a hiring "chill" is two-fold: to save money in the current year so that additional FBA would be available for the subsequent budget year and to allow for attrition with respect to the reduction of positions (i.e. reduce layoffs). It is important to emphasize that reductions should be based upon priorities, not vacant positions. Attrition is a helpful tactic but should not be the driving strategy in reducing costs. In October 2007, the County instituted a hiring "chill". All requested exceptions to the "chill" were to be approved by the County Administrative Officer. Early in FY 2013-14, the hiring "chill" was lifted to reflect improving budget conditions.

2. Reduce General Fund Contingency- Budget Policy #26 states that a minimum of 5% of available funds will be placed into contingencies. This policy was adhered to for many years, but as a part of the FY 2009-10 budget balancing strategies, the contingency was reduced to 4%. In FY 2014-15, the contingency was partially restored, to 4.5%. It is recommended that the contingency not be reduced below 3% in any given year as this would impair the County's ability to deal with unplanned issues and costs that occur mid-year. Additionally, it is important to note that reducing the contingency reduces the amount of FBA by an equal amount for fiscal year-end (unspent contingency is the largest component of FBA), hence deferring a portion of the budget gap to the subsequent year.

3. Defer capital improvement and automation projects that require General Fund support- This option saves money in the near-term but if these types of projects are continuously deferred, County facilities and systems would deteriorate and the cost of repairs would increase over time.

4. Minimize building maintenance expenditures- Similar to item number three above, this option saves money in the near-term but over time if maintenance is deferred, county facilities will deteriorate. Historically, $1.5 million to $2 million of General Fund has been allocated annually to specific projects related to the maintenance of County facilities.

5. Reduce or eliminate the General Fund contribution to the Organizational Development program- The General Fund typically contributes $450,000 to the Organizational Development fund center annually. This funding has been used to pay for the Learning and Development Center (formerly the Employee University), Citizen's Opinion Surveys, Employee Opinion Surveys, and departmental organizational assessments and training. In difficult budget years, reserves and designations could be used to fund these operations, however, in the longer term, some or all of these programs would have to be

reduced or eliminated if the General Fund contribution were reduced or discontinued.

6. Reduce or eliminate the amount of depreciation set aside for Countywide Automation projects- As part of the Countywide Cost Plan, the Auditor-Controller's Office calculates the amount of depreciation associated with automation equipment. The standard practice has been to allocate this money to the Countywide Automation fund center in order to help pay for replacement automation projects. Some or all of this money could be redirected to the General Fund. The impact is that over time, the County would not have sufficient funds to replace outdated or obsolete equipment and systems.

7. Reduce or eliminate the amount of depreciation set aside for Building Replacement- Similar to what was noted above, as part of the Countywide Cost Plan, the Auditor-Controller's Office calculates the amount of depreciation associated with County owned buildings. The standard practice has been to allocate this money to the Building Replacement fund center in order to help pay for the repair and replacement of County facilities. Some or all of this money could be redirected to the General Fund. The impact is that over time, there would not be sufficient funds to repair or replace County owned facilities.

8. Voluntary Time Off (VTO), otherwise known as voluntary furloughs- Currently, County employees may take up to 160 hours of VTO in any given year. Individuals that do so do not receive a salary but continue to receive benefits and time and service credits. As a result, VTO helps to defray salary and benefit costs. This option is short-term in nature, given that employees cannot be required to participate in this program (hence the name Voluntary Time Off) and it is not reasonable to expect employees to utilize VTO perpetually.

9. Use of Federal Stimulus Funding- The American Recovery and Reinvestment Act (ARRA) of 2009 was authorized by the Federal government at the beginning of 2009. The intent of the program was to help stabilize the economy by providing up to $780 billion to various programs and organizations in order to mitigate future job loss and to potentially increase the number of jobs. The County actively pursued ARRA funds as a means to help shore up our budget and fiscal challenges. A committee comprised of 15 departments met on a regular basis in order to identify funding opportunities and to coordinate grant applications and program designs. In total, the County applied for $102.4 million in ARRA funding and received a total of $99.7 million. New funding is no longer available.

10. Early Retirement- Early retirement programs may be offered on a case-by-case basis. The intent is to reduce the number of layoffs by enticing individuals who are considering retirement to retire sooner rather than later in order to create attrition opportunities. Depending upon the specifics, an early

retirement program may or may not provide cost savings. In instances where the program does not provide a cost savings (or is cost neutral), the sole benefit would be to reduce layoffs.

11. Use of one-time reserves- The County has set aside money in reserves, which is not designated for a specific purpose. This money has been accumulated over a number of years and has historically been used to help pay for unexpected costs or to help fund new projects or programs.

    Some of these reserves could be used to help address the budget gap. However, since this is one-time money that would be used to help fund ongoing operational expenditures, it is recommended that the amount used in any given year be limited to no more than $1 million to $2 million during the seven year “pain management plan.” This approach allowed for reserves to remain in place for the latter years of the “pain management plan” and to help mitigate unforeseen future fiscal challenges.

Options not included in the budget balancing strategies and approaches:

1. Mandatory Time Off (mandatory furloughs)- This approach has not been included in the budget balancing strategies because it is challenging to implement, does not save much more money than the Voluntary furlough program (VTO), and is short-term in nature. Further, feedback from department heads was overwhelmingly against the use of mandatory furloughs. If economic conditions were to worsen in future years, the use of mandatory furloughs may be revisited.

2. Eliminate training- Maintaining a skilled workforce is important for every organization, especially one as labor intensive as the County. This approach has not been included in the budget balancing strategies because in times of budget reductions, additional demands are placed upon remaining employees and it is more important than ever to maintain and enhance the performance of the workforce in order to successfully manage an increased workload. While training plans and expenditures were cut back considerably as part of the budget balancing process, they were not eliminated.

3. Revenue (tax) increases- In the past, tax increases such as sales taxes, transient occupancy taxes, business license taxes, and utility users taxes have been discussed. However, it was decided not to pursue these options given recent economic conditions and voter sentiment.